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Morning Briefing

Tariffs, Earnings & Batteries

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Executive Summary: Trump's Tariff Turmoil has resulted in tectonic upheavals of the operating environments companies navigate in myriad industries, and few chief executives know what the future will bring or how to plan for it. Today, Jackie reports on the tariff impacts seen by three CEOs in different industries—semiconductor manufacturing, steel, and global travel—and how they're thinking about the uncertain future. … Also: A look at how the uncertainty has affected forward earnings for the S&P 500's sectors and industries. … And: An update on the race to improve electric vehicle batteries.

Strategy I: CEOs Still Talking Tariffs. President Trump's tariffs continue to capture airtime during corporate earnings conference calls. Today, we look at a range of chief executives' responses to the unprecedented degree of uncertainty in the business environment, specifically from the CEOs of NXP, Nucor, and Booking Holdings.

NXP executives worry that tariffs will kill off the nascent green shoots they were seeing in the semiconductor industry, which has been suffering through a downturn. Booking called out the decline in travel to the US by Canadian and European travelers. Nucor, on the other hand, stands to benefit from tariffs, as they will make it easier for Nucor to compete with imported steel. Here's a closer look:

(1) *Semis' tenuous green shoots.* European semiconductor company NXP Semiconductors thinks it is seeing green shoots indicating that the downturn semiconductor manufacturers have been slogging through may be nearing an end (*Fig. 1*). Offsetting that optimistic prospect, however, is the uncertainty created by President Trump's tariffs and the potential impact it could have on demand. "As of today, the direct impact of the current tariffs is immaterial to our financials. However, the indirect impacts of current tariffs related to future end demand and [the] supply chain remain unknown," said CEO Kurt Sievers on the earnings *conference call*.

While NXP provided a Q2 earnings forecast, it didn't provide a full-year earnings forecast due to the tariff uncertainty. Q2 revenue is expected to fall 7% y/y but increase 2% q/q to roughly $2.9 billion. The future for Q2 revenue in each of its lines of business is varied: Auto (flat y/y and up by a percentage in the low single digits q/q), Industrial and Internet of Things (down in the mid-teens y/y and up in the mid-single-digits q/q), Mobile (down in the mid-single-digits both y/y and q/q) and Communication Infrastructure and Other (down in the high 20% area y/y and flat q/q).

The lack of a full-year earnings forecast and a management change at the helm (Sievers is retiring, to be replaced by Rafael Sotomayor, an executive vice president) sent the company's stock price tumbling 6.9% on Tuesday.

NXP shares have fallen 26.1% over the past year through Tuesday's close, worse than the 11.8% one-year gain in the S&P 500 Semiconductors stock price index in which it resides (*Fig. 2*).

The S&P 500 Semiconductors industry's revenue and earnings growth are expected to slow sharply—but to still-high levels (revenues 26.7% in 2025, 17.9% in 2026; earnings 42.0% in 2025, 27.0% in 2026) (*Fig. 3* and *Fig. 4*). Stock price declines have brought the industry's forward P/E down to 22.0 from a peak of 35.5 last year in June (*Fig. 5*).

(2) *Nucor could be a tariff winner.* US steel producers should benefit from the wide-ranging tariffs President Trump has placed on steel imports. Yes, there were tariffs on steel imports from years past, but so many carve-outs existed that they were toothless.

Here's how Nucor's CEO Leon Topalian explained the situation on the company's earnings *conference call* Tuesday: "Since its implementation in 2018, the [Section 232 steel] tariffs have been significantly weakened through country exemptions, quotas, and numerous product exclusions. By 2024, fewer than 18% of steel imports were subject to Section 232 tariffs. Ending the exclusions and quota agreements was necessary to strengthen the US steel industry, which was the original goal of the 232 tariffs."

The price of steel recently has rebounded from much lower levels in most of 2024. The price of domestic hot-rolled coil has jumped 16% y/y to $944 per ton (*Fig. 6*). But the bounce came too late for Nucor's Q1. The company's average sales price per ton was 12% lower in Q1 compared to year-ago levels on shipments that rose by 10%. Nucor's Q1 adjusted EPS fell to $0.77 from $3.46 a year ago and $1.22 last quarter.

Topalian was optimistic about demand: “In the first quarter, we saw backlogs rise over 30% in our steel mill segments and rise nearly 25% in steel products. We recognize a portion of this may be [demand] pulled forward [by the threat of tariffs]. However, we continue to see very healthy order entry rates and relatively stable pricing.”

Over the past year, Nucor shares have fallen 32.2%, while the S&P 500 Steel stock price index, which includes Nucor and Steel Dynamics, has declined 23.3% (*Fig. 7*).

After sharply falling revenues in recent years, the S&P 500 Steel industry is expected to see revenues climb 3.8% this year and 6.1% in 2026 (*Fig. 8*). While the industry’s earnings are still forecast to drop 6.1% this year, they’re expected to surge 33.3% in 2026 (*Fig. 9*). The industry’s forward P/E has climbed to 12.7 as its earnings have shrunk over the past two years (*Fig. 10*).

(3) *Signs of US consumer cracks?* Booking Holdings runs a host of global travel-related websites—including Booking.com, Priceline.com, Kayak.com, OpenTable.com, and Rentalcars.com. The company reported strong Q1 earnings but indicated that the behavior of US travelers has already been affected by tariff uncertainty.

Q1 revenue grew 7.9% y/y to $4.8 billion, and adjusted EPS grew 21.7% y/y to $24.81. The company believes Q2 revenue will grow 10%-12%, including a 3-percentage-point benefit from the shift of Easter into April. EBITDA is expected to grow by up to 16%, including a 7-percentage-point benefit from the Easter shift.

Booking Holdings did widen its full-year forecast range due to tariff-related economic uncertainty. It now expects adjusted EPS to grow in the low- to mid-teens on a constant-currency basis versus mid-teens levels on last quarter’s conference call.

Management also highlighted some changes in US travelers’ behavior. Room night growth was faster outside the US than it was inside: Europe and Asia (up in the high single digits y/y), Rest of World (up low double digits), and US (up low single digits).

Booking saw a “moderation” in inbound travel into the US. Europeans are traveling less to the US and more to Canada, Asia, and within Europe. Canadians are traveling less to the US and more to Mexico. Along the same lines, there was a y/y increase in the average length of stay on a global basis, but a decrease in the average length of stay in the US.

“We also saw some evidence of a bifurcated economy in the US as higher-star-rating hotels appear to be more resilient than lower-star-rating hotels. We have not seen either of these dynamics in Europe," said CFO Ewout Steenbergen during the *conference call*. He also noted that there are US airlines and hotels that need help filling seats and rooms, and the company is partnering with them to create additional demand. But weakness in the US appears to be offset by strength internationally.

Booking shares are up 39.7% over the past year, while the S&P 500 Hotels, Resorts & Cruise Lines stock price index—of which it is a member—has a 16.1% gain over the past year (*Fig. 11*). The industry's revenues and earnings have continued to climb in recent years as they recovered from the pandemic lockdowns. The incremental gains have slowed but remain positive, with revenues forecast to climb 6.4% this year and 7.6% next year (*Fig. 12*). Earnings are expected to jump more sharply, by 14.9% this year and 16.1% in 2026 (*Fig. 13*).

Strategy II: An Eye on Earnings. Trump's Tariff Turmoil certainly has increased the anxiety about the future of corporate earnings growth. And that anxiety is reflected in industry analysts' lowered expectations for S&P 500 companies' Q2s despite generally strong Q1 earnings reports (see Joe's report in yesterday's *Morning Briefing*).

However, investors can take heart that forward earnings—the time-weighted average of analysts' consensus operating EPS estimates for the current year and the following one—continues to rise despite tariff jitters. Forward earnings for the S&P 500 is 1.1% higher today than it was at the start of the year—though Joe tells us that's less than usual at this time of year: "[F]orward earnings typically rises about 0.5% m/m, so more normal would be 2.1% ytd by now."

Here's how much forward earnings has changed for the S&P 500 and its 11 sectors since the start of this year: Financials (4.5%), Information Technology (3.7), Communication Services (2.6), Utilities (2.1), S&P 500 (1.1), Health Care (0.4), Consumer Staples (-1.1), Industrials (-1.3), Consumer Discretionary (-2.3), Real Estate (-4.2), Materials (-5.5), and Energy (-8.5) (*Table 1*).

Among the S&P 500's industries, forward earnings has increased for almost half and declined for about half since the year began—although more dramatically for the cuts. Financials sector companies and REITs hold many top spots.

Here are the 15 industries with the most dramatic forward earnings increases ytd: Electronic Components (14.5%), Health Care REITs (11.5), Investment Banking & Brokerage (10.6), Publishing (8.9), Movies & Entertainment (8.6), Office REITs (8.5), Gold (8.3), Diversified Banks (8.1), Consumer Finance (7.9), Brewers (7.9), Health Care Facilities (6.8), Broadline Retail (6.7), Steel (6.7), Data Center REITs (6.6), and Semiconductors (6.6).

The forward earnings declines among industries have been concentrated in the Energy sector, in many cyclical industries, and in industries that stand to be hurt—directly or indirectly—by tariffs. Among the tariff impacted are auto manufacturers that assemble all or part of their products in Mexico and Canada; distillers and vintners, which may face retaliatory tariffs on their exports; and farm products and services, pressured by China's import substitutions.

Here are the S&P 500 industries with the greatest ytd forward earnings declines: Commodity Chemicals (-36.5%), Industrial REITs (-22.9), Automobile Manufacturers (-20.4), Reinsurance (-19.6), Hotel & Resort REITs (-17.6), Oil & Gas Refining & Marketing (-15.5), Passenger Airlines (-14.4), Copper (-12.2), Homebuilding (-12.0), Distillers & Vintners (-11.7), Integrated Oil & Gas (-11.0), Telecom Tower REITs (-9.9), Specialty Chemicals (-9.6), Agricultural Products & Services (-9.1), and Footwear (-8.2).

Disruptive Technologies: Battery Wars Continue. Announcements about advancements in battery technology have recently been made by Chinese companies, a US startup, and Ford Motor. The race to develop a battery for the fastest-charging, longest-driving electric vehicle (EV) remains heated. Read on:

(1) *Chinese battery giants make a splash.* BYD announced that it has developed a battery and charging system that can add 249 miles of range to a car's battery in five minutes versus the usual 30 minutes at best. The company *launched* the "Super e-Platform technology" in two Chinese cars in April.

Not to be outdone, Chinese battery manufacturer CATL announced it's developing a lithium iron phosphate EV battery capable of charging in five minutes and driving up to 320 miles. However, the vehicle requires a fast-charging system that's not currently available. CATL is also developing an auxiliary EV battery that wouldn't use graphite in one of its poles, an April 21 *New York Times* *article* reported. The battery, which should be available in two to three years, is less expensive and can drive farther for longer distances on a charge than currently used batteries, but it does take longer to charge.

(2) *US startup gets nod from Stellantis.* Factorial Energy has developed a solid-state EV battery that it claims is lighter, charges faster, and gets more mileage on one charge. Next

year, Stellantis, an investor in Factorial, plans to launch a Dodge Charger with a Factorial solid-state battery, and Mercedes-Benz, another Factorial investor, is testing a solid-state battery the companies jointly developed.

Factorial "hopes" its battery will have a driving range of more than 600 miles and can be 90% recharged in 18 minutes, an April 24 company *press release* stated. The battery is designed to work in extreme temperatures, ranging from -22 to 113 degrees Fahrenheit, and it's a third of the size of a lithium-ion battery and almost 40% lighter.

(3) *Ford hints that something's brewing.* Ford has developed a lower-cost battery that allows an EV to travel farther on a single charge due to a new battery chemistry, lithium manganese rich, *according* to Ford's director of electrified propulsion engineering. The batteries, expected to be used in Ford vehicles within this decade, work without using cobalt, which is expensive and has been mined using child labor.

Calendars

US: Thurs: ISM M-PMI 48.0 & Price Index 70.2; Construction Spending 0.2%; Jobless Claims 225k; Continuing Jobless Claims 1.86m; Fed Balance Sheet. **Fri:** Nonfarm Payrolls Total, Private, and Manufacturing 130k/124k/-5k; Average Hourly Earnings 0.3%m/m/3.9%y/y; Average Weekly Hours 34.2; Unemployment Rate 4.2%; Total Vehicle Sales 15.7mu; Factory Orders 4.5%. (FXStreet estimates)

Global: Thurs: UK M-PMI 44.0; Japan Consumer Confidence 34.0; Japan Unemployment Rate 2.4%. **Fri:** Eurozone CPI Headline & Core CPI Flash 2.1%/2.5% y/y; Eurozone, Germany, France, Italy, and Spain M-PMIs 48.7/48.0/48.2/47.0/50.0; Eurozone Unemployment Rate 6.1%; ECB Economic Bulletin. (FXStreet estimates)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): During the April 24 week, the S&P 500's forward revenues and earnings continued to drop from its record highs during the April 4 week. The forward profit margin was steady w/w at 13.5%, down 0.1ppt from a record high of 13.6% during the prior six weeks. It is now 3.2ppts above its seven-year low of 10.3% during April 2020. The consensus expectations for forward revenues growth fell

0.1ppt w/w to 5.2%, just 0.6ppt below its 23-month high of 5.8% during the August 1 week. It has gained 2.9ppts from its 33-month low of 2.3% during the February 23, 2023 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. The forward earnings growth forecast tumbled 0.4ppt w/w to a 14-month low of 11.1%. From a longer-term perspective, it remains close to its 20-year average of 11.4% and near its 38-month high of 14.3% during the December 12 week. That's down from its 23.9% reading at the end of April 2021, which was boosted by the recovery from the pandemic to its highest reading since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 4.6% in 2025 (down 0.1ppt w/w) and 6.1% in 2026 (unchanged w/w), compared to a 4.9% rise in 2024. They expect an earnings gain of 9.5% in 2025 (down 0.5ppt w/w) and a 14.2% rise in 2025 (unchanged w/w) compared to 2024's earnings gain of 11.4%. Analysts expect the profit margin to rise 0.6ppt y/y to 13.1% in 2025 (unchanged w/w) and 1.0ppt y/y in 2026 to 14.1% (unchanged w/w), compared to 2024's 12.5%. Looking at valuation data as of April 24, the S&P 500's weekly forward P/E rose 0.4pts w/w to 19.6 from a 16-month low of 19.2, and is now down 2.8pts from its four-year high of 22.4 during the February 20 week. It's now 4.3pts above its 30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.04pt w/w to 2.63 from a 12-month low of 2.59, and is now down 0.40pt from a record-high 3.03 during the February 20 week. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Revenues, Earnings, & Margins (*link*): During the April 24 week, forward revenues and earnings fell for nine of the 11 S&P 500 sectors. The forward profit margin rose for three sectors w/w. Heath Care was the only sector with record-high forward revenues this week. These six are less than 0.9% from their recent record highs: Communication Services, Consumer Staples, Financials, Information Technology, Real Estate, and Utilities. Among the remaining four sectors, Consumer Discretionary has dropped 2.1% from its mid-March record-high forward revenues, Industrials' is 3.0% below its early September record, and both Materials and Energy are the biggest laggards at 7.6% and 15.8% below, respectively. Utilities was the only sector with forward earnings at a record high this week. These five sectors are less than 1.7% from their record highs: Communication Services, Consumer Staples, Financials, Health Care and Information Technology. These three sectors are a bit further from their highs: Consumer Discretionary (4.7% below its early March record), Industrials (2.6% below its early April record), and Real Estate (5.5% below its August 2022 record). Forward earnings remains depressed for the last two sectors, Energy and Materials, which are 39.5% and 26.8% below their respective highs during 2022. Looking at the forward profit margin, none of the sectors was at a record high for a second straight week. Financials had dropped out of that club several weeks earlier, and was joined a week ago by Communication Services and Consumer Discretionary. During late 2024, the Industrials and Information Technology sectors were also in that club, and they remain close. These four sectors are struggling, with their forward profit margins at or barely above cyclical or record lows: Consumer Staples, Energy, Health Care, and Materials. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (27.1%, down 0.1ppt w/w and from its 27.6% record high in September, prior to low-margin Dell's addition to the index, which lowered the margin 1.3ppts then to 26.3%), Financials (20.1, down from a 20.2 record high in early April), Communication Services (18.6, down from a record high 18.7 in early April), Real Estate (16.3, down 0.1ppt w/w and from its 19.2 record high in 2016), Utilities (14.6, up 0.1ppt w/w and down from its 14.8 record high in April 2021), S&P 500 (13.5, down from a record high 13.6 in early April), Materials (10.7, just 0.2ppt above a four-year low 10.5 in March and down from a 20-month high of 11.6 in July 2023 and a 13.6 record high in June 2022), Energy (8.6, down 0.2ppt w/w to a 42-month low and down from its 12.8 record high in November 2022), Industrials (11.0, down from its 11.3 record high in early January), Consumer Discretionary (9.2, down 0.1ppt w/w and from a record high 9.4 in early April), Health Care (8.5, down 0.1ppt w/w to a record low and down from its 11.5 record high in February 2022), and Consumer Staples (6.7, down 0.1ppt to a 21-month low and down from its 7.7 record high in June 2020).

US Economic Indicators

Real GDP (*link*): *Real GDP* growth contracted for the first time since Q1-2022 on a surge in imports, as businesses imported goods to avoid higher costs on tariff concerns. *Real GDP* contracted 0.3% during Q1, following Q4's 2.4% gain. *Imports*, which is a subtraction in the calculation of GDP, rose 41.3% (saar) last quarter, with *imported goods* soaring 50.9%, as companies front-loaded ahead of anticipated tariffs. *Total imports* subtracted 5.0ppts from Q1 GDP growth. *Federal government* spending was also a drag on Q1 GDP, slipping 5.1% (saar). Meanwhile, though GDP fell last quarter, there was lots of strength in the Q1 report. *Final sales of goods to domestic purchasers*, another measure of demand in the economy, expanded 3.0% (saar), following Q4's 2.9%. *Nonresidential fixed investment* expanded 9.8% (saar) during Q1, led by a 22.5% surge in *equipment* spending, while spending on *intellectual property products* and *structures* rose 4.1% and 0.4%, respectively. An acceleration in *inventory investment* contributed 2.25pts to Q1 GDP growth. Real personal consumption expenditures also rose during Q1, climbing 1.8%, though decelerated from Q4's 4.0%, contributing 1.21ppts to Q1 growth. Spending on both nondurable goods (2.7%, saar) and services (2.4) were partially offset by a drop in durable goods (-3.4) spending.

Personal Income & Consumption (*link*): Personal income in March was slightly stronger than expected, fueling the increase in spending. *Personal income* rose 0.5% in March, versus 0.4% expected, following solid gains of 0.7% and 0.6% the prior two months. Both *wages & salaries* and *supplements to wages & salaries* matched the 0.5% increase in personal income. Personal consumption expenditures accelerated 0.7% in March, the biggest monthly jump in more than two years, as consumers rushed to buy products, particularly motor vehicles, ahead of President Trump's tariffs. March's acceleration in spending followed a 0.5% increase in February and no gain in January. *Goods consumption* rose 0.9%, led by a 3.2% jump in *durable goods* spending, while *nondurable goods* consumption contracted 0.4%; services spending rose 0.6%. *Adjusted for inflation*, real PCE jumped 0.7%, accelerating from February's 0.1% uptick and January's 0.4% decline. *Real goods* consumption advanced 1.3%, led by a 3.2% jump in *durable goods* spending, with *nondurable goods* consumption matching February's 0.4% gain. *Real services* spending also increased 0.4%, accelerating from no growth in February. *Personal saving* dropped $34.6 billion to $872.3 billion during March, with the *personal saving rate* falling to 3.9% from 4.1% during February.

Personal Consumption Deflator (*link*): Both the *headline and core PCEDs* were flat during March, with their yearly rates easing. Headline PCED slowed to 2.3% y/y from 2.7% during February, while the core rate eased to 2.6% from 3.0%. The headline and core rates peaked at 7.2% and 5.6%, respectively, during June 2022 and September 2022. *Goods* prices dipped back into negative territory in March, falling 0.3% y/y, the first decline since last November, with durable goods (-1.0% y/y) prices falling and nondurable goods prices (0.1%) showing little change. Services prices also slowed, though remained high, easing from 3.8% y/y in February to 3.5% in March. There's a mixture of inflation and deflation in *durable goods* prices. There's still deflation in prices for recreational goods & vehicles (-3.0%) and furnishings & durable household equipment (-2.1), while inflation rates for both motor vehicles & parts and motor vehicles & accessories were at zero in March, while net purchases of used motor vehicles (0.3) remained slightly above zero. Meanwhile, the rate for other durable goods (2.6) moved further above zero. Within nondurable goods, magazines, newspapers, & stationary (5.5) and pharmaceuticals & other medical products (1.6) have higher inflation rates, while several remain around zero: recreational items (-0.2%), household supplies (0.1), personal care (0.3), and clothing & footwear (0.3). Within services, *housing* costs remain stubbornly high but are down from recent peaks: owners' equivalent rent (to 4.4% from 8.2%), tenant rent (4.0 from 8.8), and housing & utilities (4.3 from 8.3). Looking at *non-housing* services, personal care (5.7%), recreation (4.5), education (2.7), transportation (1.9), and medical care (1.7) remained above zero, while communication (-1.7) fell below.

ADP Employment (*link*):"Unease is the word of the day. Employers are trying to reconcile policy and consumer uncertainty with a run of mostly positive economic data. It can be difficult making hiring decisions in such an environment," noted Nela Richardson, chief economist of ADP. *Private payroll* employment rose only 62,000 in April, half the consensus estimate of 120,000. The *service-providing sector* added just 34,000 jobs last month, and was a mixture of positives and negatives: Leisure & hospitality (27,000), trade, transportation & utilities (21,000), and financial activities (20,000) were the service industries in the plus column, while education/health services (-23,000) posted the largest decline, followed by information services (-8,000), professional & business services (-2,000), and other services (-1,000). *Goods-producing* employment rose 26,000 during April, with construction (16,000) accounting for most of the increase, followed by natural resources/mining (6,000) and manufacturing (4,000). *By size*, medium establishments (40,000) added the most to payrolls, with large (12,000) and small (11,000) establishments posting similar gains. According to the report, the yearly pay increase for *job-changers* accelerated from 6.7% in March to 6.9% in April, while pay gains for *job-stayers* rose 4.5%, a slight deceleration from March.

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